

## CHAPTER 4 — EARNINGS AND CREDITABLE SERVICE

<b>400</b>	<b>Definition of Reportable Earnings</b>
<b>401</b>	<b>Reportable Earnings</b>
<b>402</b>	<b>Overtime Pay, Vacation Pay, Sick Pay (Accumulated Leave)</b>
<b>403</b>	<b>Payments at Termination</b>
<b>404</b>	<b>Retirement Credit for Worker's Compensation</b>
<b>405</b>	<b>Pay During a Leave of Absence</b>
<b>406</b>	<b>Earnings Not Reportable</b>
<b>407</b>	<b>Reportable And Non-Reportable Earnings Guide</b>
<b>408</b>	<b>Definition of Creditable Service</b>

### **400 Definition of Reportable Earnings**

Wis. Stat. § 40.02 (22) (a), defines earnings for WRS purposes as:

"The gross amount paid to an employee by a participating employer as salary or wages, including amounts provided through deferred compensation or tax shelter agreements, for personal services rendered to or for an employer, or which would have been available for payment to the employee except for the employee's election that part or all of the amount be used for other purposes and also includes the money value, as determined by the employer, of any board, lodging, fuel, laundry and other allowances provided for the employee in lieu of money. For purposes of this paragraph, the gross amount shall be determined prior to deductions for taxes, insurance premiums, retirement contributions or deposits, charitable contributions or similar amounts and shall be considered received as of the date when the earnings would normally be payable by the employer. For reporting and computation purposes, fractions of a dollar shall be disregarded in determining annual earnings."

The definition of WRS earnings differs from the definition of wages for IRS purposes. Some major differences include:

- Deferred compensation and tax-sheltered amounts are included in WRS earnings but are not included in gross wages for IRS purposes.
- Retroactive wage settlements must be reported in the year they would have been paid for WRS purposes but are reported in the year when paid for IRS purposes.
- Section 125 cafeteria reduction amounts are reportable for WRS purposes but are not included in wages for IRS purposes.

The provisions of Wis. Stats. Chapter 40 relating to WRS earnings will always take precedence over any conflicting public entity resolution, order, ordinance, bargaining unit

agreement, etc. for purposes of administering the WRS. An employer may not redefine earnings as WRS earnings if the earnings do not meet the criteria in Wis. Stats. Chapter 40.

Questions regarding the reportable status of earnings for WRS purposes should be directed to the Employer Communication Center at (608) 264-7900.

#### **401 Reportable Earnings**

Earnings to be reported to WRS include the following:

- A. Cash payments for personal service.
- B. Overtime pay (See Subchapter 402).
- C. Vacation pay (See Subchapter 402).
- D. Sick pay (See Subchapter 402).
- E. Clothing allowances provided to employees to purchase clothing adaptable for street wear that is required for employment (see Subchapter 406E for a description of non-reportable uniform allowances).

**EXAMPLE:** In the police profession, undercover officers may be issued blue jeans, tennis shoes and tee shirts for use in undercover duties. The value of the allowance to purchase these items is reportable for WRS purposes because the clothing is adaptable for street wear.

- F. Value of free meals, lodging, or allowances provided in lieu of money (money value to be determined by employer), with certain exceptions explained in Subchapter 406G.

**EXAMPLE:** A city hires a new administrator from another part of the country. Rather than pay the administrator in dollars for personal services rendered, the city agrees to provide free room and board to the new administrator until the administrator is able to secure permanent living arrangements for himself and his family. The value of this free room and board is reportable for WRS purposes.

- G. Value of using an employer owned vehicle for employee personal use without being required to reimburse the employer.

**EXAMPLE:** A county provides an unmarked police vehicle to a detective for work related activities. The deputy is permitted to use the vehicle for personal use and is not required to reimburse the county for this personal use. The value of using the county owned vehicle for the deputy's personal use is reportable for WRS purposes.

The employer must maintain documentation to support the portion of the value reportable as WRS earnings.

- H. Car allowance for using a personal vehicle for non-work related activities when detailed records are kept.

**EXAMPLE:** A city provides the fire chief with a monthly car allowance as it is often necessary for the chief to use his personal vehicle for work-related activities. For some months, the car allowance may be more than the actual expense the chief incurs for using his personal vehicle for work-related activities. The portion of the car allowance which is not used for work-related activities is reportable for WRS earnings.

The employer must maintain documentation to support the portion of the car allowance reportable for WRS purposes.

- I. Value of a general expense allowance when used for non-work related expenses and for which reimbursement is not made by the employee.

**EXAMPLE:** A city provides the mayor with a general expense allowance to cover work-related expenses incurred in the performance of the job. The mayor receives this allowance as an advance and is permitted to reclaim the allowance even if work-related expenses are not incurred. The portion of the general expense allowance not used for work-related expenses is reportable for WRS purposes.

The employer must maintain documentation to support the portion of the general expense that is reportable as WRS earnings.

- J. Retroactive pay for service performed. These earnings must be allocated to the years in which the earnings would normally have been paid (See Chapter 10).
- K. Length of service bonus or merit pay (that are excluded if payment is contingent on the employee terminating eligible employment).
- L. Section 125 Cafeteria Plan reduction amounts (Employee Reimbursement Account).
- M. Salary received from employer while the employee serves jury duty.
- N. Credit for earnings that would have been paid during the period the employee was receiving temporary disability benefits from worker's compensation (See Subchapter 404).
- O. Earnings paid for compensatory time which is used and not resulting from termination (not if lump sum payout).
- P. Back pay which represents salary (See Chapter 13 for reporting details).
- Q. Compensation paid during a paid leave of absence (See Subchapter 405).
- R. Compensation for part-time police officer training time which is paid by the city and reimbursed by the state.
- S. For a state elected official who is prohibited by law from receiving an increase in compensation during the official's term in office, the compensation that would have been payable if the official had not been prohibited by law from receiving the increase.

- T. Earnings for on call, standby, extra curricular or other service which is incidental to the primary employment. In situations where compensation is paid on a flat fee basis (regardless of hours worked), the following formula may be used to determine hours of service to report: divide the amount paid annually by the participating employee's current basic pay rate, and the resulting quotient is reported for hours of service. One year is the maximum amount of service granted annually (Wis. Admin. Code § ETF 10.03(7)(c)).
- U. Credit, upon return to employment, for earnings that would have been paid during the period an employee left employment to perform in the uniformed services (see Chapter 22).

#### **402 Overtime Pay, Vacation Pay, Sick Pay (Accumulated Leave)**

Overtime pay, vacation pay, and sick pay are earnings for WRS purposes when used or when paid regularly to an employee during an employment relationship.

Lump sum payments made routinely to all employees on a regular basis regardless of whether or not the employee terminates are earnings for retirement purposes. For example, if an employer makes a lump sum payment to all employees for unused sick leave or vacation at the end of each year, the amounts are earnings for WRS purposes. Also, if an employee terminates prior to this routine payment date and receives the lump sum payment at the time of termination, the payment is reportable for WRS purposes.

#### **403 Payments at Termination**

When a payment for accumulated vacation, sick leave or compensatory time is made in a lump sum specifically because of termination (unless the employee is applying for a disability annuity), the lump sum payment is excluded from earnings for WRS purposes (Wis. Stat. § 40.02 (22) (b) 6.). The total amount due the employee also could be made in periodic installments and would continue to be excluded from earnings.

However, amounts for accumulated leave used at the time of termination are covered earnings for retirement purposes and extend the employee's termination date from the actual last day worked.

ETF processing of a disability annuity application requires that the employer certify that all earnings, including service and pay for vacation and sick leave,\* have been paid. Last earnings date should be extended accordingly.

**EXAMPLE:** An employee who last works on June 6 and then uses two weeks of vacation will terminate employment on June 20, and hours and earnings for the two weeks vacation must be reported for retirement purposes.

In determining whether to report accumulated leave paid at termination the deciding factor is whether the leave is used or paid off.

---

\* Participating employees whose compensation plan or contract provides for converting unused sick leave to pay group health insurance premiums and who qualify for a disability benefit, can either use sick leave until exhausted or convert it for credits to pay health insurance premiums. If the sick leave is converted, the disability benefit will begin sooner.

1. Used leave is covered earnings for retirement purposes and extends the employee's termination date from the last day worked for the time represented by those earnings.
2. Pay-off of accumulated leave at termination, whether in a lump sum or periodic installments, is not covered earnings for retirement purposes (except as provided in Subchapter 402). The last day worked is normally the termination date, unless the employee was on an unpaid leave prior to termination. There should be a signed agreement between the employee and the employer stating that the leave is being used or paid off to eliminate questions concerning the handling of payments for accumulated leave.

#### **404 Retirement Credit for Worker's Compensation**

Employees who are WRS participants must be reported for service and earnings credits during any period of temporary disability if they receive Worker's Compensation benefits under Wis. Stat. § 102.43. There is no distinction between partial or total disability; "temporary" disability is the criterion.

1. Earnings must be reported at the rate which would have been paid if the disability had not occurred, including adjustments in the rate paid during the period.
2. Creditable service must be reported on the same basis as was reported immediately prior to the temporary disability.
3. If the initial injury was caused through work at another employer but a recurrence results in a Worker's Compensation award, the present employer must comply with this chapter.
4. Once a permanent disability has been determined or the employee terminates employment, the period of time for which Worker's Compensation benefits are received, are no longer reportable as earnings for WRS purposes.

The employer must pay all employee and employer contributions required on the earnings reported for the employee. After the employee has returned to work, the employer may recover from the employee's future earnings the contribution amount paid on behalf of the employee and which customarily would have been paid by the employee. The amount recoverable may not be deducted from the employee's paycheck at a rate greater than 5% of each payment of earnings (Wis. Stat. § 40.29).

#### **405 Pay During A Leave of Absence**

A person receiving pay from the employer during a leave of absence is considered a participating WRS employee. Earnings paid during this time are reportable for WRS purposes.

Hours are determined and reported by the employer as follows:

1. If the compensation paid to the employee during the leave of absence is less than the earnings paid in the immediately preceding time period of the same length as the leave, then hours credited are to be prorated based on the ratio of pay during the leave to the earnings that were received in the preceding period. Hours are computed by dividing the compensation paid during the leave by the earnings paid in the preceding period and multiplying the result by the hours reported for that preceding period (Wis. Admin. Code § ETF 10.07 (2)(a)).

**EXAMPLE:** In 1996 an employee received \$32,000 earnings. In 1997 the employee would have received \$35,000 had he not taken a leave of absence. During the paid leave of absence, the employee receives 60% of his salary or \$21,000. The corresponding hours are calculated by:

$$\begin{aligned} \$21,000 \text{ divided by } \$32,000 \text{ (pay in preceding year)} &= 66\% \\ 1,904 \text{ hours} \times 66\% &= 1,257 \text{ hours} \end{aligned}$$

2. If the compensation paid to the employee during the leave of absence is equal to or greater than the earnings paid for the hours immediately preceding, in a time period of the same length as the leave, then the hours reported shall be the same as in that preceding period.

#### **406 Earnings Not Reportable**

The following are NOT considered reportable earnings for WRS purposes:

- A. Employer contributions for Social Security, insurance and retirement.
- B. Lump sum cash payments made specifically at termination for accumulated vacation, sick leave or compensatory time, or any payment contingent on the employee having terminated employment or having died, including a bonus or any form of severance pay which is made solely because the employee terminates or dies. (See Subchapter 403 for a further description of payments at time of retirement.)
- C. Payments received in lieu of sick leave such as payments through an insurance carrier (e.g., Income Continuation Insurance payments to employees).
- D. Payments in lieu of fringe benefits normally paid for or provided by the employer but which can be paid to the employee at the employee's option. This includes IRAs or Tax Deferrals purchased with monies originally intended to purchase another fringe benefit (e.g., health insurance) This also includes banked vacation for which a cash payment is made at employer's option/discretion. (See Subchapter 402.)
- E. Uniforms purchased directly by the employer, or uniform allowances (either advances or reimbursements to employees) for the purchase of uniforms if the uniforms are required to be worn in the performance of the service and are not of a type adaptable to general or continued wear such that they could take the place of ordinary clothing.

**EXAMPLE:** A city provides an annual allowance to police officers so that they can purchase blue or brown uniforms, hats and bulletproof vests. This clothing is not adaptable for everyday use, but instead is worn to perform a job for the employer. This uniform allowance is not reportable for WRS purposes.

- F. Amounts paid as advances or reimbursements for ordinary and necessary expenses (meals, lodging, travel, etc) incurred while the employee is conducting the business of the employer. These advances or reimbursements must be identified by the employer either by making a separate payment or by specifically indicating separate amounts where both wages and expense allowances are combined in a single payment.

EXAMPLE 1: The employer directs an employee to attend an out-of-town training session. The employer reimburses the employee for a lunch expense. This reimbursement is not reportable for WRS purposes as the employee incurred the expense while conducting business for the employer.

EXAMPLE 2: As part of her job, a city employee is required to travel extensively throughout the state. The employee incurs expenses for meals and lodging for which the employer reimburses the employee. For extended travel trips, the employee receives a partial advance of money to be used exclusively for meal and lodging expenses. These reimbursements and/or advances are not reportable for WRS purposes as the expenses were incurred in the performance of the employee while conducting the employer's business.

EXAMPLE 3: A village employee is asked to use her personal vehicle to deliver village reports to a state agency. The employee is reimbursed for use of her personal car. The employee received this reimbursement for a business related expense incurred for the convenience of the employer. Therefore, this reimbursement is not reportable for WRS purposes.

- G. The value of meals if provided on the employer's premise for the convenience of the employer and the employee does not have the option of taking cash.

EXAMPLE: A county elected official is asked by the employer to participate in a luncheon seminar with state officials on the county's premise. The value of the lunch is not reportable as the employee attends the lunch for the benefit (or convenience) of the employer.

- H. The value of the use of an employer owned vehicle when used for commuting purposes or in conducting employer business for the convenience of the employer.

EXAMPLE: A city provides the police chief with a city owned vehicle to ensure that the chief has access to transportation 24 hours a day. The chief also uses the vehicle for personal use but is required to reimburse the city for the personal use of the vehicle. The value of using the vehicle for work related activities is not reportable for WRS purposes.

- I. Payments for damages, attorney fees, interest or penalties.
- J. Amounts paid to students who are under age 20 who began employment on or after April 23, 1992, and who are regularly enrolled or expected to be enrolled as full-time students (grades 1-12) in a public, private, or parochial elementary or high school.
- K. Payments on a fee-for-service basis to an independent contractor (See Subchapter 301).
- L. Payments made in the last five years of employment that are the result of a change in the method of computing the base compensation unless the change is permanent and applicable to all employees or is the result of significant changes in the employee's duties.

## 407 REPORTABLE AND NON-REPORTABLE EARNINGS GUIDE

<b>Type Of Compensation</b>	<b>Type of Payment</b>	<b>Example</b>	<b>WRS Reportable</b>	<b>Comments</b>
Advancements	Cash payment	Advancement for ordinary and necessary expenses incurred in the business of the employer (e.g., meals, lodging, etc.)	No	The advance must be identified separately by the employer when the payment is made.
Allowances (See Clothing, Expense, Lodging And Vehicle)				
Attorney Fees	Cash payment	Employee is awarded a payment representing attorney fees resulting from a grievance, compromise settlement, court order, etc.	No	Cash settlements for attorney fees are considered damages and are not reportable for WRS purposes.
Back Pay Awards	Cash payment	Payment resulting from a compromise settlement, court order, etc. which represents back wages.	<p>1. Yes</p> <p>2. No</p>	<p>1. Back pay awards are reportable for WRS purposes if the settlement agreement meets the requirements in Wis. Admin. Code ETF 20.12.</p> <p>2. If all requirements in Wis. Admin. Code ETF 20.12 are not met in the settlement agreement, a back pay award is not reportable for WRS purposes.</p> <p>See Chapter 13 – Settlement Agreements</p>
Cafeteria Plan (IRC Section 125) Reductions	Reductions from IRS gross wages	Medical expense, dependent care expense, and insurance premiums expense reductions.	Yes	WRS earnings include amounts deducted from gross wages for Section 125 plans.
Cash	Cash payments of salary, wages, etc.	Payment for personal services rendered to an employer.	Yes	Amounts paid to an employee for personal services rendered are reportable for WRS purposes.



**Wisconsin Retirement System**  
**Chapter 4 — Earnings and Creditable Service**  
**Page 9**

<b>Type Of Compensation</b>	<b>Type of Payment</b>	<b>Example</b>	<b>WRS Reportable</b>	<b>Comments</b>
Clothing Allowance	1. Cash advancement or reimbursement for clothing that is adaptable for street wear	1. Blue jeans, tennis shoes, tee shirts, etc. issued to undercover police officers	1. Yes	1. Clothing allowances used for the purchase of normal street wear benefit the employee as well as the employer and are, therefore, reportable for WRS purposes.
	2. Cash advancement or reimbursement for standard uniforms (non-adaptable to regular street wear)	2. Official uniforms (e.g. police, fire, bus driver, etc.) including hats, bulletproof vests, etc.	2. No	2. Standard uniforms are for the benefit of the employer only and are not reportable for WRS purposes.
Compensatory Time	1. Cash payment at regular intervals for compensatory time earned	1. An employee works extra hours and receives compensatory time which is paid out to the employee at regular intervals (e.g., once a year, twice a year, etc.).	1. Yes	1. Payment for compensatory time is earnings for WRS purposes when paid regularly to an employee during the employment relationship (regardless of whether or not the employee terminates).
	2. Cash payment for compensatory time specifically due to termination	2. An employee receives a lump sum payment at time of termination for accumulated compensatory time and the employer does not otherwise make payments for compensatory time.	2. No	2. Payment for compensatory time specifically paid because of termination is not reportable for WRS purposes.  See Subchapters 402 and 403.
Contributions Paid by Employer	Employer's share of contributions	Employer's share of: insurance premiums, retirement contributions, Social Security taxes, etc.	No	Employer share of contributions and premium are not reportable for WRS purposes.

<b>Type Of Compensation</b>	<b>Type of Payment</b>	<b>Example</b>	<b>WRS Reportable</b>	<b>Comments</b>
Damages Payment	Cash settlement	Employer agrees to pay employee an arbitrary amount to compensate for some wrong doing on the part of the employer.	No	A cash settlement may not be considered earnings for WRS purposes unless it meets the requirements of Wis. Admin. Code ETF 20.12.  See Subchapter 1302.
Deferred Compensation	Amounts deferred from gross wages	Employee participates in a tax sheltered program under section 403(b) of the IRC or a deferred compensation program under section 457 of the IRC, etc.	Yes	Amounts paid for personal services rendered, but deferred for tax purposes are reportable for WRS purposes in the year when earned.
Employee Reimbursement Accounts	Deduction from gross wages for tax purposes	See examples under Cafeteria Plans above.	Yes	Amounts paid for personal services rendered, but deducted from gross wages for tax purposes are reportable for WRS purposes.
Expense Allowance	Cash payment	A city mayor receives a monthly expense allowance for use in attending work-related functions and activities.	No	Expense allowance payments used for the ordinary and necessary expenses incurred in the business of the employer are not reportable for WRS purposes. The employer must make separate payments or indicate separate amounts where both wages and expense allowances are combined in a single payment.
Extra Curricular Activity Pay	Cash payment	A teacher also performs as the football team's coach.	Yes	The additional earnings are reportable for WRS purposes and hours are calculated by dividing the amount paid annually by the employee's current basic pay rate.
Fringe Benefit	Cash payment	An employee requests and receives a direct payment or a payment to an account (e.g. IRA or tax deferred annuity) on his/her behalf instead of using the money for life and disability insurance premiums.	No	Payments in lieu of fringe benefits normally paid for or provided by the employer but which can be paid to the employee at the employee's option are not reportable for WRS purposes.

**Wisconsin Retirement System**  
**Chapter 4 — Earnings and Creditable Service**  
**Page 11**

<b>Type Of Compensation</b>	<b>Type of Payment</b>	<b>Example</b>	<b>WRS Reportable</b>	<b>Comments</b>
Independent Contractor Payments	Fee-for-service cash payment	Employer hires a system analyst/programmer working for a consulting firm to complete a special project.	No	An independent contractor is not an employee of the employer and, therefore, the earnings are not reportable for WRS purposes.
Insurance Payments	Cash payment	Income continuation or life insurance payments made to an employee by an insurance carrier.	No	Insurance payments are not payment for services rendered and are not reportable for WRS purposes.
Interest Payments	Cash payment	An employee receives a settlement award from an employer that includes interest on lost back wages.	No	Amounts paid as interest in settlement agreements are considered damages and are not reportable for WRS purposes.
IRA Payment	Payment to an IRA on behalf of an employee	An employer puts money into an IRA for an employee instead of using the money to pay health insurance premiums.	No	Payments in lieu of fringe benefits normally paid for by the employer but which can be paid to the employee at the employee's option are not reportable for WRS purposes.
Jury Duty Compensation	Cash payment	An employee receives regular wages from the employer while serving jury duty.	Yes	The regular salary amount is reportable for WRS purposes.  NOTE: Any amount of money paid to the employee by the court is not reportable for WRS purposes.
Length of Service Payment	Cash payment	An employer pays an annual bonus to all employees based on a specified number of years of service.	Yes	This payment is reportable for WRS purposes as long as it is not contingent on termination of employment.

<b>Type Of Compensation</b>	<b>Type of Payment</b>	<b>Example</b>	<b>WRS Reportable</b>	<b>Comments</b>
Lodging Advancement or Reimbursement	1. Lodging provided in lieu of salary	1. An employer provides a new employee with lodging in lieu of salary.	1. Yes	1. The value of the lodging is reportable for WRS purposes if it is not provided for the convenience of the employer or as a condition of employment.
	2. Cash advance or reimbursement	2. An employee receives cash reimbursement for lodging expenses incurred while attending a work-related conference or training seminar.	2. No	2. Advancement or reimbursement for ordinary and necessary expenses incurred in the business of the employer are not reportable for WRS purposes.
Leave of Absence Compensation	Cash payment	A teacher or police officer, for example, receives payment during an administrative leave of absence.	Yes	These earnings are reportable for WRS purposes.  See Subchapter 405 for calculating service hours.

<b>Type Of Compensation</b>	<b>Type of Payment</b>	<b>Example</b>	<b>WRS Reportable</b>	<b>Comments</b>
Meals Advancement or Reimbursement	1. Cash payment	1. An employee receives cash reimbursement for meal expenses incurred while attending a work-related conference or training seminar.	1. No	1. Advancement or reimbursement for ordinary and necessary expenses incurred in the business of the employer are not reportable for WRS purposes.
	2. Free meal in lieu of salary	2. Free meals provided by the employer in lieu of salary.	2. Yes	2. The value of the meal is reportable for WRS purposes if the employee has the option of taking cash in lieu of the free meal, if the meal is not a condition of employment and if the meal is not provided for the convenience of the employer.
	3. Free meal for the employer's convenience	3. As a condition of employment, a police dispatcher is provided with a meal on the premises of the employer strictly for convenience of the employer. The employee has no option to request cash payment in lieu of this free meal.	3. No	3. The value of a free meal which is provided to an employee for the convenience of the employer (as a condition of employment) and for which the employee may not take cash payment is not reportable for WRS purposes.
Merit Pay	Cash payment	An employee receives a one-time or base building merit pay award for exceptional job performance.	Yes	The merit pay is reportable as earnings for WRS purposes as long as the merit award is not contingent on termination of employment.

<b>Type Of Compensation</b>	<b>Type of Payment</b>	<b>Example</b>	<b>WRS Reportable</b>	<b>Comments</b>
On-call Pay	Cash payment	A village EMT employee is paid a minimal amount per hour for being on-call.	Yes	The on-call earnings are reportable for WRS purposes.  Hours are calculated by dividing the amount paid for on-call services in the annual earnings period by the employee's current base pay rate.
Overtime Pay	Cash payment	An employee receives overtime pay for hours worked in excess of 40 per week.	Yes	Overtime pay is reportable for WRS earnings when paid regularly to an employee during an employment relationship.
Penalty Payments	Cash payment	An employee receives a settlement award from an employer that includes a penalty payment to the employee for wrong doing on the part of the employer.	No	Amounts paid as penalties in settlement agreements are considered damages and are not reportable for WRS purposes.
Reimbursement (see Clothing, Lodging and Vehicle)				

**Wisconsin Retirement System**  
**Chapter 4 — Earnings and Creditable Service**  
**Page 15**

<b>Type Of Compensation</b>	<b>Type of Payment</b>	<b>Example</b>	<b>WRS Reportable</b>	<b>Comments</b>
Sick Leave Pay	Cash payment	<p>1. All employees of an employer receive an annual pay out for unused sick leave.</p> <p>2. An employee's last day worked is January 29, 1999. The employee receives payment for 20 days of unused sick leave and the employer extends the termination date to February 26, 1999.</p> <p>3. An employee's last day worked is January 30, 1999. The employee receives payment for 28 days of unused sick leave but the employer does not extend the employee's termination date beyond January 30<sup>th</sup>.</p>	<p>1. Yes</p> <p>2. Yes</p> <p>3. No</p>	<p>1. The sick leave pay out is reportable for WRS purposes when paid regularly to an employee during an employment relationship, when made routinely to all employees on a regular basis, and when not paid in a lump sum solely because of termination.</p> <p>2. The sick leave pay out is reportable for WRS purposes at termination when the payment results in extending the employee's termination date to account for the pay out.</p> <p>3. The sick leave pay out is not reportable for WRS purposes at termination if the termination date is not extended to account for the accumulated leave unless the employer routinely pays out sick leave.</p>
Standby (See On Call)				
State Elected Official Salary Increase	Delayed effect	A State senator votes to increase the pay of senators and the law is passed. The senator is prohibited from receiving the pay increase until the next term.	Yes	The value of the increase in compensation the State elected official would have received had it not been prohibited by law is reportable for WRS purposes.
Tax Deferral (See Deferred Compensation)				
Tax Shelter (See Deferred Compensation)				

<b>Type Of Compensation</b>	<b>Type of Payment</b>	<b>Example</b>	<b>WRS Reportable</b>	<b>Comments</b>
Training Pay	Cash payment	A part-time police officer is sent to training that is paid by the city and may be reimbursed by the state.	Yes	If the employee is otherwise eligible for WRS, the training pay is reportable by the city for WRS purposes.



<b>Type Of Compensation</b>	<b>Type of Payment</b>	<b>Example</b>	<b>WRS Reportable</b>	<b>Comments</b>
Vacation Pay	Cash payment	1. All employees of an employer receive an annual pay out for unused vacation.	1. Yes	1. Vacation pay out is reportable for WRS purposes: when paid regularly to an employee during an employment relationship; when made routinely to all employees on a regular basis; and when not paid in a lump sum solely because of termination.
		2. An employee's last day worked is January 29, 1999. The employee receives payment for ten days of unused vacation and the employer extends the date of termination to February 12, 1999.	2. Yes	2. The vacation leave pay out is reportable for WRS purposes at termination when the leave is used resulting in the extension of the employee's termination date.
		3. An employer routinely pays employees for unused vacation on an annual basis. If an employee terminates prior to the annual pay out, the pay out is made at termination.	3. Yes	3. The vacation pay out is reportable for WRS purposes as the employer regularly pays out unused vacation annually or upon termination if the employee terminates prior to the annual pay out.
		4. An employee's last day of work is January 29, 1999. The employee receives payment for 15 days of unused vacation. The employer does not regularly pay unused vacation and the employer will not allow the employee to extend their termination date to use vacation. The employer reports a termination date of January 29, 1999.	4. No	4. The vacation pay out is not reportable for WRS purposes at termination if the termination date is not extended and the employer does not regularly pay out unused vacation.

<b>Type Of Compensation</b>	<b>Type of Payment</b>	<b>Example</b>	<b>WRS Reportable</b>	<b>Comments</b>
Vehicle Advancement, Allowance and Reimbursement	1. Cash payment	1. An employee receives an allowance, advancement or reimbursement for use of a personal vehicle for work-related meetings and events.	1. No	1. Advancement or reimbursement for ordinary and necessary expenses incurred in the business of the employer are not reportable for WRS purposes.
	2. Value of personal use of employer-owned vehicle	2. An employee receives use of an employer-owned vehicle for work and personal use and the employee is not required to reimburse the employer for personal use of this vehicle.	2. Yes	2. Only the value of the personal use of the employer-owned vehicle is reportable for WRS earnings. The employer must maintain detailed reporting of personal versus work-related use.
	3. Value of work-related use of an employer-owned vehicle	3. A city fire chief is provided with a city-owned vehicle to commute to work related destinations at anytime of the day or night for the convenience of the employer. The fire chief maintains records of personal versus work mileage and reimburses the city for personal usage.	3. No	3. The value of the use of the employer owned vehicle when used for commuting purposes for the convenience of the employer is not reportable for WRS purposes.

**Wisconsin Retirement System**  
**Chapter 4 — Earnings and Creditable Service**  
**Page 19**

<b>Type Of Compensation</b>	<b>Type of Payment</b>	<b>Example</b>	<b>WRS Reportable</b>	<b>Comments</b>
Voluntary Employee Benefits Association (VEBA)	Employee Contributions	Employee is required to make the contribution to fund post employment medical expenses from their earnings and the contributions are made from pre-tax income.	Yes	VEBA is authorized under Section 501(c)(9) of the Internal Revenue Code. It allows for the tax-free pre-funding of post employment medical expenses. Funds can only be used for post employment medical expenses. Premium payments, both incoming funds and earnings, and post employment expenditures are exempt for State, Federal and FICA taxation. Typically a third party administrator is responsible for account activity.
Voluntary Employee Benefits Association (VEBA)	Employer Contributions	Employer contributes money to fund post employment medical expenses for the employee.	No	VEBA is authorized under Section 501(c)(9) of the Internal Revenue Code. It allows for the tax-free pre-funding of post employment medical expenses. Funds can only be used for post employment medical expenses. Premium payments, both incoming funds and earnings, and post employment expenditures are exempt for State, Federal and FICA taxation. Typically a third party administrator is responsible for account activity.

<b>Type Of Compensation</b>	<b>Type of Payment</b>	<b>Example</b>	<b>WRS Reportable</b>	<b>Comments</b>
Worker's Compensation Credit	No payment	An employee is injured and receives temporary disability benefits through Worker's Compensation.	Yes	<p>The earnings (and associated hours of service) that would have been paid to the employee during the period the employee was receiving temporary disability benefits from Worker's Compensation are reportable for WRS purposes.</p> <p>NOTE: The amount paid to the employee from Worker's Compensation is not reportable.</p>

#### **408 Definition of Creditable Service**

Wis. Stat. § 40.02(14), defines creditable current service as the service granted for performance of duties for which a participating employee receives earnings from a participating employer.

NOTE: Service must be reported accurately since it is a key factor in determining benefits.

##### **A. Annual Earnings Period is Base for Reporting Service**

Creditable service is reported for all employees based on their annual earnings period. The annual earnings period for all participants except teachers, educational support personnel and judges is the calendar year beginning on January 1 and ending December 31. The "fiscal year" is the annual earnings period for teachers, educational support personnel and judges. It is the period beginning July 1 and ending the following June 30.

Earnings paid to a teacher contracted to receive such payments on a nine- or ten-month contract, but that are paid after July 1 for services rendered in the preceding school year, are deemed to be received by the teacher on June 30 and are to be reported for the preceding school year (See Chapters 8 and 9). Service and earnings for a 12-month contract teacher should be reported when paid.

##### **B. Computing and Reporting Creditable Service**

Under Wis. Admin. Code § ETF 10.03, each participating employer must determine and report service in hours for each participating employee.

The following provisions apply in reporting and crediting service for your employees:

1. The full-time equivalent of one year of creditable service for a teacher is 1,320 hours. Thus a teacher will be granted a full year of service if at least 1,320 hours are reported.

2. A full year of service for all types of employment other than teaching is 1,904 hours.
3. No more than one year of creditable service will be granted for any annual earnings period, even if an employee exceeds the number of hours needed during an annual earnings period for a full year of credit.
4. A salaried employee who works additional hours but is not paid additional earnings should not receive additional service. Service is reported based on the number of hours for which earnings are paid.
5. Fractions of an hour of service may be rounded to the nearest full hour, with a fraction of one-half hour or more rounded up to the next whole number.

Reporting for Eight-Hour Workday Under Wis. Admin. Code § ETF 10.03, the full-time equivalent of one day of service is eight hours. If an employee has an established workday of eight hours or is a part-time hourly employee, report the actual hours for which earnings are paid.

Computing Hours to Report for Other Than an Eight-Hour Workday If an employee or group of employees has an established written policy of a full-time workday other than eight hours, determine the number of hours to report on all *Employee Transaction Reports* (ET-2533) on which employee hours are reported using the formula in Wis. Admin. Code § ETF 10.03(2), as follows:

1. Divide the number of hours for which earnings are paid in the reporting period by the number of hours which would have been worked in that period by a regular full-time employee in the same kind of employment.
2. Multiply the result derived in (1.) above by 40.
3. Multiply this result by the number of weeks (and fractions of a week) in the reporting period being determined.

This formula will convert a workday of other than eight hours to the equivalent of one day of service. The following examples explain how the formula is used. (Italicized numbers are variables.)

EXAMPLE 1: A seven-hour workday has been established as full-time employment for a group of employees. Full-time employment for a two-week pay period is 70 hours. An employee works the full 70 hours.

$$\frac{70 \text{ hours worked}}{70^*} = 1 \times 40 \times 2^{**} = 80^{***}$$

EXAMPLE 2: If a 7½-hour workday is full-time and a full-time employee works 75 hours in a two-week pay period, compute the hours to be reported as follows:

$$\frac{75 \text{ hours worked}}{75^*} = 1 \times 40 \times 2^{**} = 80^{***}$$

EXAMPLE 3: If the same employee was paid for ten hours overtime, compute the hours to be reported as follows:

$$\frac{85 \text{ hours worked}}{75^*} = 1.13 \times 40 \times 2^{**} = 90.4 = 90^{***}$$

EXAMPLE 4: A 7½-hour workday is full-time employment (75 hours in a two-week period). An employee works 37 hours in a two-week period.

$$\frac{37 \text{ hours worked}}{75^*} = .5 \times 40 \times 2^{**} = 40^{***}$$

EXAMPLE 5: A 7½-hour workday is full-time employment (75 hours in a two-week period). An employee ordinarily works 37 hours in a two-week period but during one period works four hours extra and is paid for the extra service. (37.5 plus 4 = 41.5)

$$\frac{41.5 \text{ hours worked}}{75^*} = .55 \times 40 \times 2^{**} = 44^{***}$$

EXAMPLE 6: The established work week for a full-time firefighter is 56 hours, or 112 hours for a two-week pay period. For such a full-time firefighter, compute the hours to be reported as follows:

$$\frac{112 \text{ hours worked}}{112^*} = 1 \times 40 \times 2^{**} = 80^{***}$$

- \* Full-time hours
- \*\* Weeks in reporting period
- \*\*\* Hours to be reported

#### Teachers

For teachers a school day is any day in which school is actually taught and includes legal holidays if they fall within the scheduled school term. Also included as days of service are:

- a. State Teachers' Conventions
- b. Days when school is closed by Order of the Health Officer

A teacher who substitutes for another teacher during a free period in the regular workday and is paid additional earnings must receive additional service. Service is in

addition to the number of hours worked by a regular full-time employee in a normal workday.

C. Earnings and Hours for On-call, Standby, Extracurricular and Other Non-Standard Hours

If a participating employee receives earnings for on-call, standby, extracurricular or other service which is incidental to the primary employment, the earnings must be reported and contributions paid on those earnings on the same basis as for any other earnings. (Wis. Admin. Code § ETF 10.03 (7) (a)).

The number of hours to report for the person is determined by dividing the compensation received for the service by the employee's "current basic pay rate." The "current basic pay rate" as defined in Wis. Admin. Code § ETF 10.01 (1m) (a), is the hourly rate or its equivalent, excluding any overtime or supplementary compensation, at which the employee is paid.

For example, if a teacher is paid \$1,000 extra to serve as advisor for the school yearbook and the teacher's current basic pay rate is equivalent to \$20 per hour, a total of 50 hours would be added to the hours on the employee transaction on which you report the \$1,000 in earnings.

In another example, an employee is asked to be on call for two days on a holiday weekend. The employee is paid \$80 extra to be on call. His "current basic pay rate" is \$8 an hour. Divide the \$80 compensation received for the on call duty by the pay rate of \$8 an hour. The resulting 10 hours should be included in the total hours reported section of the employee transaction report on which you account for the \$80.

D. Creditable Service for Part-Time Local Elected Officials

Under Wis. Admin. Code § ETF 10.03(6), for local elected officials who are eligible for participation in the WRS but who are serving in positions not considered to be full-time, service is determined and reported as follows:

1. Positions which are essentially ministerial in nature (officials other than members of the governing body).

Report the number of hours actually worked if a regular work schedule has been established. If there is no regular work schedule, you may not report more hours than the result obtained by dividing the official's yearly salary by twice the non-farm federal minimum wage for the appropriate year. The minimum wage for 1998 is \$5.15 an hour. The following example shows how to apply the above rule:

$$\frac{\text{Yearly Salary}}{\text{Twice Minimum Wage}} = \text{Hours of creditable service}$$

$$\frac{\$5,500}{\$10.30} = 533.98 \text{ rounded to } 534 \text{ hours of creditable service}$$

The minimum wage from 1976 to 1997 and beyond is as follows:

1976-1977	2.30
1978	2.65
1979	2.90
1980	3.10
1981- March 1990	3.35
April 1990 - April 1991	3.80
May 1991 - Sept. 1996	4.25
Oct. 1996 - Aug. 1997	4.75
Sept. 1997 – Beyond	5.15

2. Members of a governing body or other policy-making group.

Report the number of hours in actual attendance at board and committee meetings and a reasonable number of hours for time spent in preparation for the meetings. In no case can the number of hours determined to have been spent in preparation time exceed twice the number of hours actually spent at the meeting.

It is the responsibility of the employer to maintain the necessary documentation to justify the reasonableness of the basis used in reporting hours for local elected officials.

### E. Creditable Service for County Agents

Most of the counties in Wisconsin, excluding Menomonee and Milwaukee, have established and maintain an educational program in cooperation with the University of Wisconsin. Employees of this program are considered employees of both the county and the University. It was determined that the employees are performing teaching service and should be covered for WRS.

The amount of hours reported for county agents should be based on the percentage of earnings that the county or the University pays. The amount of hours reported by either party should not exceed 1,320 hours.

Example of reporting county agent:

Agent has 2,080 hours of service with \$20,000 annual income.

University reports 60%: 1,248 hrs.      \$12,000 earnings

County reports 40%:	<u>832 hrs.</u>	<u>8,000 earnings</u>
	2,080 hrs.	\$20,000 earnings